

NCA  
VOC FOR PGM/FN  
BACKGROUNDER NO. 5-6177  
JULIAN K. GORSKI

OCTOBER 4, 1978

## EAST-WEST ECONOMIC PROBLEMS

ANNCR:

THE PAST DECADE HAS SEEN A RAPID GROWTH IN EAST-WEST TRADE RUNNING WELL AHEAD OF THE EAST-WEST POLITICAL RAPPROCHEMENT. THIS EASING OF ECONOMIC BARRIERS, HOWEVER, IS NOT BEING ACCOMPLISHED WITHOUT SOME SERIOUS PROBLEMS AS WE HEAR IN THIS BACKGROUND REPORT FROM VOA'S JULIAN GORSKI:

VOICE:

A STUDY, PREPARED BY THE BROOKINGS INSTITUTION IN WASHINGTON, SHOWS THAT DEBTS OWED BY INDIVIDUAL EAST EUROPEAN COUNTRIES TO WESTERN FINANCIAL INSTITUTIONS ARE LARGE ENOUGH TO RAISE THE ISSUE OF REPAYMENTS. THIS IS THE GIST OF THE RECENTLY-RELEASED REPORT -- BASED LARGELY ON THE FINDINGS OF A GROUP OF PRIVATE ECONOMISTS AND POLITICAL SCIENTISTS FROM NORTH AMERICA, THE EUROPEAN COMMUNITY (COMMON MARKET) AND JAPAN WHO MET LAST JUNE IN KIEL, WEST GERMANY.

WHILE WELCOMING CLOSER EAST-WEST ECONOMIC COOPERATION, THE REPORT CITES SOME OF THE OBSTACLES THAT NEED TO BE OVERCOME. IT POINTS OUT THAT THE VERY NATURE OF WESTERN AND EASTERN ECONOMIC SYSTEMS IS INHERENTLY DIFFERENT. ON THE ONE HAND ARE THE WESTERN NATIONS, WITH THEIR HIGHLY DEVELOPED TECHNOLOGY VIRTUALLY UNRESTRICTED BY STATE SUPERVISION. ON THE OTHER -- COUNTRIES WHICH SPENT A LARGE PART OF THE POST-WAR PERIOD BUILDING UP HEAVY INDUSTRY WITH TOTAL DISREGARD FOR THE EVERY-DAY NEEDS OF THEIR PEOPLE. HOWEVER, PRESSURES FOR IMPROVED LIVING CONDITIONS HAVE FORCED EAST EUROPEAN AUTHORITIES TO TURN TO THE WEST BOTH FOR CONSUMER GOODS AND FOR THE EQUIPMENT TO MANUFACTURE THEM.

THIS, IN TURN, HAS RESULTED IN A HEAVY DRAIN ON THEIR ALREADY MEAGER FOREIGN CURRENCY SUPPLIES.

THE SOVIET UNION, THE BROOKINGS INSTITUTION STUDY SHOWS, WAS BEST ABLE TO HANDLE THE SITUATION. WITH THEIR CONSIDERABLE DEPOSITS OF OIL, NATURAL GAS, GOLD AND OTHER MINERALS, THE SOVIETS WERE IN A POSITION TO COVER DEBTS INCURRED BY THE PURCHASE OF GRAIN AND ANIMAL FODDER DURING THE BAD HARVEST YEARS OF THE EARLY AND MID 1970S. THUS IN 1977, THE REPORT SAYS, THE SOVIETS WERE ACTUALLY ABLE TO INCREASE EXPORTS AND REDUCE IMPORTS -- EACH BY MORE THAN ONE THOUSAND MILLION DOLLARS. HOWEVER, SOVIET PARTNER-NATIONS IN THE COUNCIL FOR MUTUAL ECONOMIC AID (CEMA) WERE LESS FORTUNATE...EVEN THOUGH, AS A GROUP, THEY DID MANAGE TO REDUCE THEIR DEFICIT SOMEWHAT.

POLAND AND BULGARIA ARE SINGLED OUT IN THE STUDY, AS COUNTRIES WITH THE GREATEST PROBLEMS BECAUSE THEIR DEBTS ARE SO LARGE THAT INTEREST PAYMENTS EAT UP A DANGEROUS PROPORTION OF EXPORT EARNINGS.

BULGARIA, WITH ITS RELATIVELY WEAK ECONOMIC BASIS IS APPARENTLY TRYING TO CATCH UP WITH ITS CEMA PARTNERS AND IN DOING SO IS RUNNING INTO DIFFICULTIES OF HOLDING ON TO ITS HARD CURRENCY RESERVES.

POLAND'S NET HARD CURRENCY DEBT AT THE END OF LAST YEAR WAS TWELVE THOUSAND SIX HUNDRED MILLION DOLLARS. THIS, AS THE BROOKINGS STUDY SHOWS, WAS HIGHER THAN EVEN THAT OF THE SOVIET UNION. NONETHELESS, POLAND'S CREDIT RATING REMAINS HIGH IN THE WEST. THIS, AS THE JOURNAL OF COMMERCE POINTED OUT SOME MONTHS AGO, IS BECAUSE THE POLES ARE DETERMINED TO REPAY THEIR FOREIGN DEBTS BY EXPANDING THE ALREADY CONSIDERABLE EXPORTS TO HARD CURRENCY COUNTRIES.

NONETHELESS, WESTERN OBSERVERS SUGGEST THAT DIFFICULTIES IN EAST-WEST TRADE WILL CONTINUE TO EXIST. THE VERY FACT THAT EAST EUROPEAN COUNTRIES ADHERE TO CENTRALIZED ECONOMIC MANAGEMENT WHILE THE WEST FOLLOWS THE PRINCIPLES OF PRIVATE ENTERPRISE, STANDS IN THE WAY OF CLOSE COOPERATION.

-0-

GH/RD